



Plunging Commercial Real Estate Demand Sends Prices Lower

Property Sales Near Pandemic Lows and More Space Hitting the Market Curb Values



New completions of investment-grade property are coming as demand falls. (iStock)

By [Mark Heschmeyer](#)
CoStar News

December 29, 2023 | 4:57 P.M.

U.S. commercial real estate sales prices have fallen as the number of deals has collapsed to near-pandemic lows, according to a CoStar Group analysis.

The findings for November, the most recent data available, are part of [CoStar's Commercial Repeat-Sale Indices](#) that track when a previously sold property is sold again in a process called a repeat sale.

The number of transactions in November marked the second-lowest total since the depths of the pandemic lockdowns. The low volume sets up the possibility that fourth-quarter sales may not be the highest of the year, according to Chad Littell, national director of U.S. capital markets analytics for CoStar and author of the CCRSI report.

“While the falling number of repeat sales is noteworthy, it’s the change in total consideration, or dollar values, trading hands that’s eye-popping,” Littell said. “The evaporation of sales volume in November erased \$3.6 billion from the prior month by posting \$5.7 billion in sales, down 38.6% from October. This marks the sharpest month-over-month retraction for the month of November since 2008.”

The value-weighted U.S. Composite Index, reflecting big property sales common in major cities, declined for the third straight month — for a 1.1% drop over October. The index was down 8.3% for the 12 months ended in November and was 13.8% lower than the July 2022 peak.

Meanwhile, the equal-weighted U.S. composite index, which shows the more numerous, lower-priced property deals typical in smaller markets, dropped 0.3% in November from the prior month. Still, the index increased 1.3% in the 12 months ended in November — but was 1.5% lower than the September high.

Major Decline

Before the pandemic, the pattern for the total dollar amount of sales each November was to dip slightly from October before spiking in December, Littell added. However, the average November pullback between 2017 and 2019 was 4.4% — nowhere near the 38.6% drop this year.

The erosion in sales was larger for the big property sales common in major cities, which plunged lower by 61.9% over the 12 months ended in November, compared with the year through November 2022. These major sales, which are considered investment grade, accounted for about 46.2% of the overall transaction volume during the past 12 months.

“This is unusual, as the investment-grade segment typically contributes a greater share,” Littell said.

Fundamentals in the investment-grade property segment have deteriorated in the past 12 months, according to the CoStar report. About 5.7 million more square feet was projected to be taken by tenants moving in than was given up across office, industrial and retail property in the 12 months ended in December, a 98% drop from the 12 months ended in December 2022. The investment-grade contribution turned negative in the 12 months ended this month.

Completion of new space, meanwhile, is projected to reach 878 million square feet in the 12 months ended in December, up 8.5% from the same time in 2022. About 89% of the space completed this year, or 781.4 million square feet, was rated investment grade based on size, quality of design and construction, and their potential for higher yields from rents.

This month's CCRSI report provides the market's first look at commercial real estate pricing trends through November based on 1,052 repeat sale pairs for the month and 299,382 repeat sales since 1996.
